

Message Text

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ACTION EUR-12

INFO OCT-01 AF-08 IO-13 ISO-00 SP-02 USIA-15 AID-05 EB-07

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H-02 PA-02 PRS-01 CIAE-00 COME-00 FRB-01 INR-07

NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 /122 W

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 3294

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

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USMISSION OECD PARIS

USMISSION GENEVA

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AMCONSUL ZURICH

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TAGS: EFIN, ECON , SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF SEPTEMBER 26-
OCTOBER 2

1. SUMMARY: UPWARD PRESSURE ON DM BROUGHT IT TO PARITY WITH
SWISS FRANC. DOLLAR DECLINED. SWISS NATIONAL
BANK PRESIDENT SAID THAT EUROPEAN SNAKE POSSIBLY COULD BE
REPLACED BY EXPANDED SYSTEM OF COUNTRIES SETTING TARGET
ZONES FOR CURRENCY EXCHANGE RATES. FOUR LARGEST BANKS CUT
INTEREST RATES ON ONE-YEAR DEPOSITS. SNB SEPTEMBER BALANCE
SHEET TOTALS SHOWED SUBSTANTIAL INCREASE FROM AUGUST. SWISS
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BANKERS' ASSOCIATION PRESIDENT URGED FEDERAL COUNCIL EXERCISE

LEADERSHIP TO AVOID VOTER REJECTION OF IMPORTANT ECONOMIC PROGRAMS. FEDERAL COUNCILOR FURLER SAID BANK SECRECY MUST GIVE WAY IN CASES OF OVERRIDING PUBLIC INTEREST.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: MARKETS HECTIC AND NERVOUS AT MIDWEEK, CALM FRIDAY. UPWARD PRESSURE ON DM BROUGHT DM TO PAR WITH SWISS FRANC AS OF SEPTEMBER 28. DOLLAR DROPPED FROM SF 2.46 TO SF 2.44; EXPERTS PREDICTED DM WILL BE REVALUED UPWARD AFTER FRG ELECTIONS TO PRESERVE SNAKE. GOLD PRICE DECLINED FROM 118 TO 115 AS SPECULATORS MOVED INTO FORWARD PURCHASES DM. RATES FOLLOW:

	9/27(OPEN)	10/1(CLOSE)
SPOT DOLLAR	2.4635	2.4480

FORWARD DISCOUNTS(PCT.P.A.)

ONE MONTH	-4.57	-4.51
2 MONTHS	-4.03	-4.04
3 MONTHS	-3.97	-3.55
6 MONTHS	-3.60	-3.50
12 MONTHS	-3.58	-3.41
SF.DM	99.93	100.07
GOLD	118.25	115.75

3. SWISS VIEWS BEFORE IMF MEETING: SNB PRESIDENT LEUTWILER TOLD INTERVIEWER THAT EUROPEAN JOINT FLOAT IN TROUBLE BECAUSE OF UNBALANCED MONETARY COMPOSITION; BELIEVED CREATION TARGET ZONES FOR CURRENCIES A POSSIBLE ALTERNATIVE IF INCLUDED MORE COUNTRIES THAN PRESENT SNAKE GROUP. LEUTWILER SAID SWISS INTERESTED IN LOOSE SYSTEM OF COUNTRIES WITH SIMILAR INFLATION RATES. HE STRESSED VALUE OF INFORMATION EXCHANGE BETWEEN FLOAT COUNTRIES, PARTICULARLY WITH GERMAN FEDERAL BANK, AND WAS CONVINCED GOLD PRICE WILL RISE FURTHER. ONE EDITORIALIST SPECULATED ON POSSIBLE MONETARY COOPERATION BY STRONG CURRENCY COUNTRIES, I.E. FRG, JAPAN, US AND SWITZERLAND, UNCLASSIFIED

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TO HANDLE PRESSING WORLD BALANCE OF PAYMENTS PROBLEMS FROM RISING COSTS OF ENERGY AND INDUSTRIAL PRODUCTS.

4. CAPITAL AND MONEY MARKETS: NERVOUS MARKETS, VERY LIQUID. CALL MONEY RATE CLOSED FRIDAY 0.5 PERCENT, DOWN FROM 1 PERCENT SEPTEMBER 30 WHEN BANKS MET USUAL END-OF-MONTH/QUARTER REQUIREMENTS. STOCKS OFF SLIGHTLY, SKA INDEX (1959 EQUALS 100) DOWN TO 207.7 SEPTEMBER 30.

FOUR LARGEST BANKS CUT INTEREST RATES FROM 2.75 TO 2.25 PERCENT ON 12 MONTH FIXED TERM DEPOSITS; THREE AND SIX MONTHS RATES REMAIN 1 AND 1.75 PERCENT RESPECTIVELY.

5. SNB SEPTEMBER BALANCE SHEET: MAJOR CHANGES SNB'S BALANCE SHEET SHOWN BELOW. FOREIGN EXCHANGE HOLDINGS ROSE SUBSTANTIALLY AS RESULT MARKET INTERVENTIONS AND END-OF-MONTH SWAPS WITH COMMERCIAL BANKS. INCREASED GIRO ACCOUNTS REFLECT POLICY PROVIDE GREATER CAPITAL MARKET LIQUIDITY TO STIMULATE ECONOMY.

SEPTEMBER 30 (CHANGE FROM AUGUST 31)
(MILLIONS OF SWISS FRANCS)

ASSETS

GOLD	11,904	--	--	
FOREIGN EXCHANGE	15,820	UP	2,268	
ROOSA BONDS	5,403	--	--	
DISCOUNTED PAPER	285	UP	1	
LOMBARD LOANS	614	UP	287	
OTHER	1,349	UP	105	

LIABILITIES

NOTES IN CIRCULATION	17,968	UP	196	
GIRO ACCOUNTS	9,677	UP	3,105	
FRSERVES				
(FOREIGN LIABILITIES)	221	DOWN	350	
OTHER	7,513	DOWN	290	
BALANCE SHEET TOTALS	35,379	UP	2,661	

ECONOMIC

6. GOVERNMENT PROGRAMS: DEBATE ON GOVERNMENT ECONOMIC UNCLASSIFIED

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PROGRAMS INTENSIFIED AS FEDERAL COUNCIL SENT PARLIAMENT PROPOSED CONSTITUTIONAL ARTICLE PROVIDING FOR ADDITIONAL ECONOMIC POLICY POWERS AND UPPER HOUSE GAVE FINAL APPROVAL TO VALUE ADDED TAX MEASURE, WHICH GOES TO PUBLIC REFERENDUM NEXT JUNE. SPEAKING TO SWISS BANKERS' ASSOCIATION, SBA PRESIDENT SARASIN BACKED GOVERNMENT PROGRAMS BUT CALLED ON FEDERAL COUNCIL TO EXERCISE LEADERSHIP, INFORM PUBLIC FULLY ON ISSUES, EXPLAIN NEED FOR NEW LAWS AND ALTERNATIVES FACED AS GOVERNMENT REQUESTS GREATER AUTHORITY TO MANAGE DIFFICULT AND COSTLY PROGRAMS. SARASIN CALLED FOR REAL FEDERAL ECONOMIES, NOT MERE SHIFTING OF BURDENS TO CANTONS OR PUBLIC SECTOR, BUT BACKED VAT TO INCREASE REVENUES FOR BALANCED FEDERAL BUDGET. HE WARNED AGAINST OVER-BURDENING PRIVATE ENTERPRISE WITH TAXES AND SOCIAL PROGRAMS WHICH REDUCE

PRICE COMPETITIVENESS AND INCENTIVES TO EXPAND PRODUCTION. SARASIN ALSO BACKED SNB MEASURES TO CONTROL FOREIGN DEMAND FOR SWISS FRANC AND SUPPORTED GOVERNMENT EFFORTS TO STIMULATE THE ECONOMY AND TO ACQUIRE FORMAL CONSTITUTIONAL BASIS FOR DOING SO. PRESS HAILED SPEECH AS EXCELLENT POLITICAL ANALYSIS CURRENT PROBLEMS, NOTING LACK OF DIALOGUE PRIOR TO POST REFERENDUMS HAD RESULTED IN VOTERS REJECTION SEVERAL DESIRABLE MEASURES.

7. GOVERNMENT'S VIEWS: IN SUBSEQUENT SPEECH TO SBA, FEDERAL COUNCILOR FURGLER STRESSED INTERDEPENDENCE AND CO-RESPONSIBILITY OF GOVERNMENT AND PRIVATE SECTOR. HE SUPPORTED CONTINUATION BANK SECRECY TO PROTECT THE INDIVIDUAL BUT SAID IT MUST GIVE WAY IN AREAS OF OVERRIDING PUBLIC INTEREST. (NOTE: 63 PERCENT OF SWISS POLLED RECENTLY SUPPORTED CONTINUATION BANK SECRECY.) FURGLER EMPHASIZED GROWING PUBLIC AND PRIVATE DEPENDENCE ON FEDERAL SUBSIDIES; CALLED FOR SOUND FINANCING OF EXISTING PROGRAMS. SAID GROWTH FUTURE OUTLAYS MUST CORRESPOND GROWTH GNP. HE SUPPORTED PROGRAMS TO GIVE CANTONS MORE RESPONSIBILITY AND FEDERAL GOVERNMENT LOSS, AND APPROVAL OF VAT. FURGLER STRESSED THE IMPORTANCE OF REVISED CORPORATE LAW TO PROVIDE BETTER INFORMATION ON COMPANIES' FINANCIAL POSITION TO SHAREHOLDERS, EMPLOYEES AND CREDITORS.

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